

Budget Brief – Capital Improvements

NUMBER CFGO-07-25

SUMMARY

Capital Improvements—formerly known as “alteration, repair and improvements” (AR&I)—are usually improvement projects costing less than \$1.5 million on the state’s existing fixed capital assets. They can also be new construction projects costing less than \$250,000. Capital improvement funds may not be used for program equipment or routine maintenance. Statute requires capital improvements to be funded at a level equal to 1.1 percent of the replacement value of existing state buildings prior to any new capital development project being approved. During budget deficits the statute allows funding at 0.9 percent.

Utah didn’t fund capital improvements at the 1.1 percent level until the 2005 General Session, when it exceeded the minimum by \$2.5 million. Since then it has stayed at the 1.1 percent level.

ISSUES AND RECOMMENDATIONS

FY08 Requirement

The statutorily required amount of funding for FY 2008 is \$73,059,900, which is \$10,138,600 more than the FY 2007 appropriation. The increase for FY 2007 was \$6,759,700, but had the 2005 Legislature not appropriated an excess of \$2.5 million in the base budget, the required FY 2007 amount would have been \$9.3 million.

The Executive Appropriations Committee has already recognized the increase of \$10,138,600 as a mandate and authorized it to be placed in the FY 2008 Base Appropriations Bill. The Analyst recommends the funding increase be split evenly between the General Fund and the Education Fund. Currently the General Fund covers 55 percent of the appropriation even though education facilities expend more than 50 percent. In UCA 63A-5-104 the Legislature declares its intent to fund at least half of the capital improvement requirement with the General Fund.

Figure 1: Capital Budget - Capital Improvements - Budget History

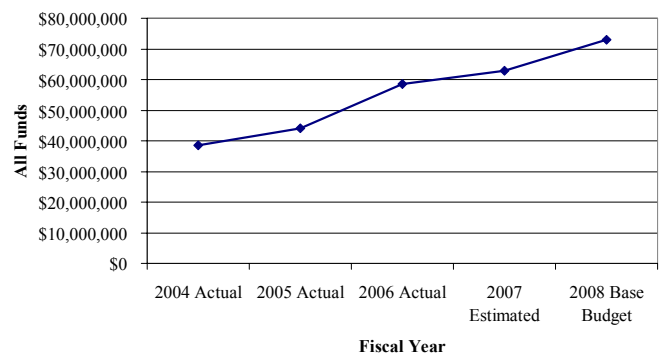
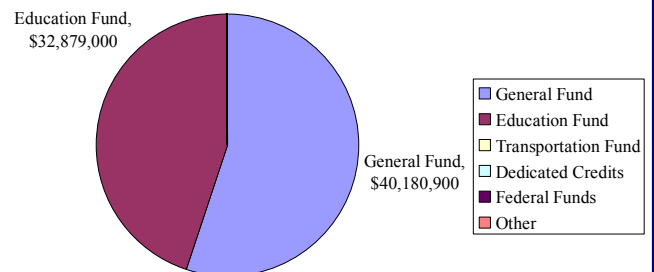
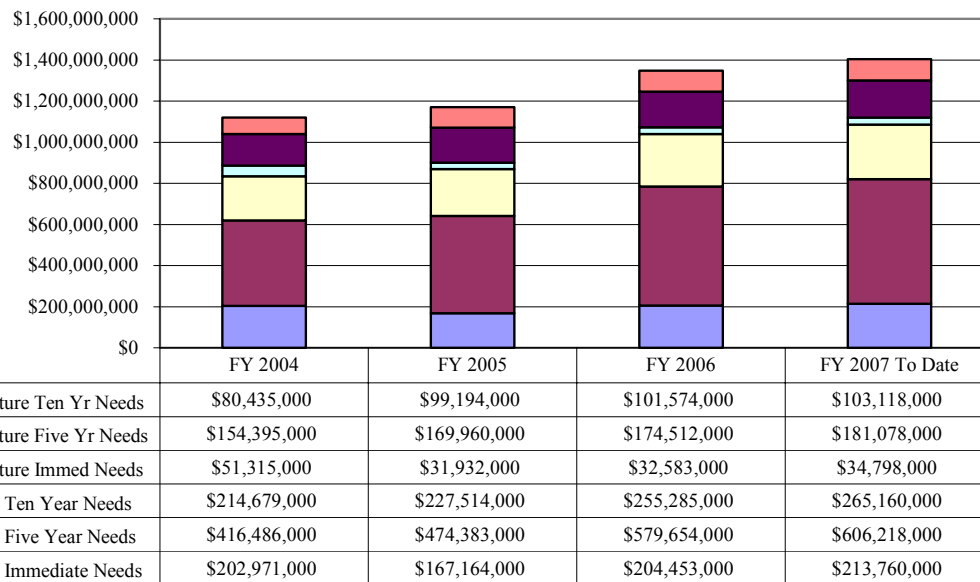


Figure 3: Capital Budget - Capital Improvements - FY 2008 Funding Mix



ACCOUNTABILITY DETAIL**Expenditures by Major Area****Summary of Capital Improvement Funding**

	FY 2002	%	FY 2003	%	FY 2004	%	FY 2005	%	FY 2006	%	FY 2007 Est	%
Higher Ed	\$25,703,600	58%	\$18,596,600	52%	\$22,040,300	52%	\$23,690,100	54%	\$30,287,900	54%	\$34,826,300	53%
UCAT	\$1,812,800	4%	\$1,394,500	4%	\$1,712,700	4%	\$883,700	2%	\$1,254,500	2%	\$1,841,200	3%
State Agencies	\$13,003,200	29%	\$13,025,200	36%	\$15,171,600	36%	\$16,038,800	36%	\$20,170,723	36%	\$23,932,300	36%
Statewide Issues	\$4,140,000	9%	\$3,090,400	9%	\$3,790,100	9%	\$3,444,300	8%	\$4,448,477	8%	\$4,993,500	8%
Total	\$44,659,600	100%	\$36,106,700	100%	\$42,714,700	100%	\$44,056,900	100%	\$56,161,600	100%	\$65,593,300	100%
Other			\$4,400,000									

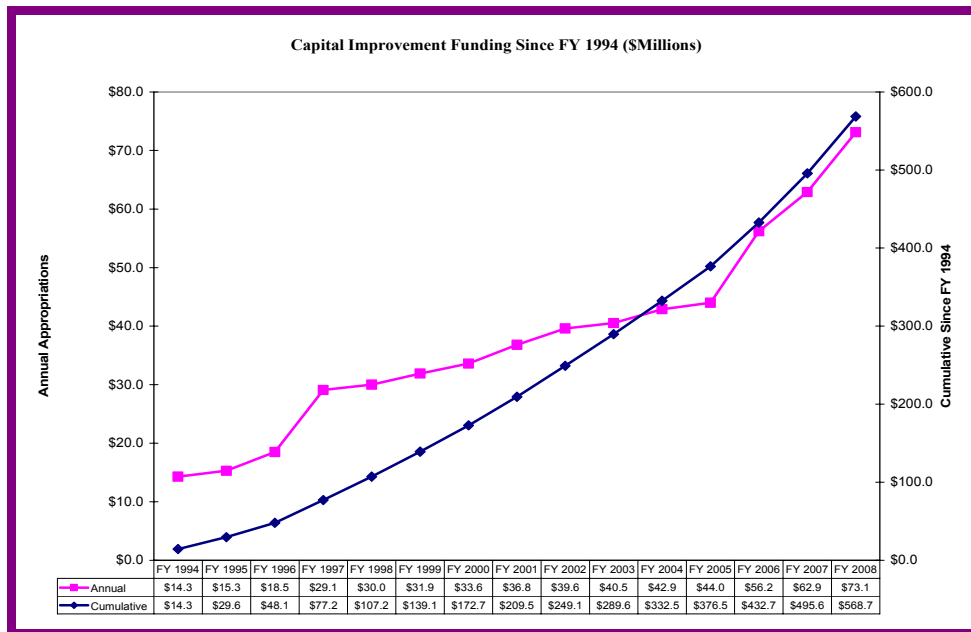
Progress on Maintenance Backlog**Facility Condition Assessment: Maintenance Backlog**

DFCM's Facility Condition Assessment Program has identified \$249 million in "immediate" repair needs to buildings and infrastructure, and more than \$1.4 billion in needs over the next ten years. Capital improvement funds cannot address all issues, since many problems cost more than \$1.5 million to correct. In those cases, funds must be used from the Capital Development line item. The Legislature sometimes spends Capital Development funds on building replacements rather than expansions.

The reason for the large increase in FY 2006 is mostly inflation associated with the cost of completing repairs that were not completed earlier, and because the evaluators had recently completed reassessments on several buildings (all buildings are reassessed on a five-year cycle).

FY 2008 funding increase in the base budget

Under the statutory formula, funding for capital improvements will almost always climb to new highs each year due to inflation and new facilities coming on line. Inflation on construction projects has been particularly high in the last three fiscal years, thus driving up the replacement cost of existing facilities.



BUDGET DETAIL

The addition of \$10,138,600 in FY 2008 appropriation was split evenly between the General Fund and the Education Fund.

Budget Recommendation for FY 2008:

The Analyst recommends a total FY 2008 Capital Improvement budget of \$73,059,900. This includes the FY 2007 base budget of \$62,921,300 plus an additional \$10,138,600. The additional funds are already allocated in the FY 2008 Base Budget Bill and are therefore also included in the table below.

LEGISLATIVE ACTION

The Analyst recommends the Legislature adopt:

1. A total base appropriation of \$73,059,900 for the Capital Improvements Line Item.

BUDGET DETAIL TABLE

Capital Budget - Capital Improvements						
Sources of Finance	FY 2006 Actual	FY 2007 Appropriated	Changes	FY 2007 Revised	Changes	FY 2008* Base Budget
General Fund	35,111,600	35,111,600	0	35,111,600	5,069,300	40,180,900
Education Fund	21,050,000	27,809,700	0	27,809,700	5,069,300	32,879,000
Risk Management ISF	2,500,000	0	0	0	0	0
Total	\$58,661,600	\$62,921,300	\$0	\$62,921,300	\$10,138,600	\$73,059,900
Programs						
Capital Improvements	58,661,600	62,921,300	0	62,921,300	10,138,600	73,059,900
Total	\$58,661,600	\$62,921,300	\$0	\$62,921,300	\$10,138,600	\$73,059,900
Categories of Expenditure						
Other Charges/Pass Thru	58,661,600	62,921,300	0	62,921,300	10,138,600	73,059,900
Total	\$58,661,600	\$62,921,300	\$0	\$62,921,300	\$10,138,600	\$73,059,900
Other Data						
*Does not include amounts in excess of subcommittee's state fund allocation that may be recommended by the Fiscal Analyst.						